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NSC Review Completed as Redacted.

16 June 83

ES/MI # 322

MEMORANDUM FOR: See Distribution

SUBJECT : Meetings

Type of Meeting	:	*Cabinet
Date	:	Friday, 24 June
Time	:	2:00 - 3:00
Place	:	Cabinet Room
Chaired By	:	President
Principal Only?	:	Yes
Subject/Agenda	:	Economic Outlook and Housing Policy

When to Expect Papers	:	Will Advise
Time Info Received	:	Per Dawn, Office of the Cabinet, 5:00

Anne

Distribution:

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*Takes place of TENTATIVE Cabinet meeting
on Thursday, 23 June.

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83-3140

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508SECRET

June 18, 1983

MEMORANDUM FOR:

B Mr. Donald P. Gregg
 Assistant to the Vice President for
 National Security Affairs

B Mr. Charles Hill
 Executive Secretary
 The Department of State

D COL John H. Stanford
 Executive Secretary
 The Department of Defense

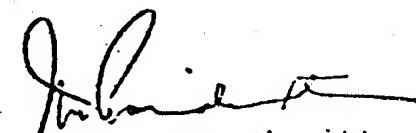
A Mr. Thomas Cormack
 Executive Secretary
 Central Intelligence Agency

D COL George A. Joulwan
 Executive Assistant to the Chairman
 Joint Chiefs of Staff

B Ms. Jackie Tillman
 Executive Assistant to the U.S.
 Representative to the United Nations

SUBJECT: National Security Planning Group Meeting on the Middle
 East, Tuesday, June 21, 1983 (S)

Subject meeting will be held in the White House Situation Room
 at 3:00 p.m., June 21, 1983. An agenda for the meeting is
 attached.


 Robert M. Kimmitt
 Executive Secretary
pl

Attachment: Agenda

SECRET

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MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET

June 18, 1983

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: GEOFF KEMP
 PHIL DUR *Wil D.*
 HOWARD TEICHER *HT*

SUBJECT: NSPG on the Middle East

Chuck Tyson has blocked out time for this meeting at 3:00 p.m. on Tuesday, June 21, 1983. This meeting will permit a timely review of the situation and our options before the departure of Secretary Shultz.

Papers for review at this meeting are being prepared by State and Defense. We will prepare a memorandum for you to forward these papers to the President on Monday.

The agenda we have proposed is consistent with the work underway at the respective agencies shown as having the lead.

Recommendation

That you authorize Bob Kimmitt to sign out the memorandum at Tab I, which forwards the agenda to NSPG principals.

Approve

Disapprove

Attachment

Tab I Memorandum and agenda to NSPG principals

SECRET

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SECRET

National Security Planning Group

Tuesday, June 21, 1983

MIDDLE EAST

A g e n d a

I. Introduction (5 minutes) William P. Clark

II. Intelligence Assessment (15 min.) William J. Casey

- A. Israeli domestic political scene
- B. Lebanese scene
 - 1) Prospects for the Gemayel Government
 - 2) The Druze and Phalange
 - 3) Shia unrest in the South
 - 4) Factional fighting in the North
- C. Palestinian reaction to Israeli withdrawal
- D. The Syrian perspective
- E. Soviet objectives following the Lebanon-Israeli agreement

III. Policy Options (20 min.) George P. Shultz

- A. Responding to Israeli-Lebanese proposals for partial withdrawal
- B. Strategy for Syria

IV. Options for future mission and deployments of the MNF (15 min.) Caspar Weinberger

V. Summary The President

SECRET

Declassify on: OADR



United States Department of State

Washington, D.C. 20520

Executive Registry
83-3141

June 17, 1983

UNCLASSIFIED

TO :	OVP	- Mr. Donald P. Gregg	S/S 8318743
	NSC	- Mr. Robert Kimmitt	S/S 8318744
	CIA	- Mr. Thomas B. Cormack	S/S 8318745
	Commerce	- Mrs. Helen Robbins	S/S 8318746
	Defense	- COL John Stanford	S/S 8318747
	JCS	- LTC Dennis Stanley	S/S 8318748
	USTR	- Mr. Dennis Whitfield	S/S 8318749

SUBJECT: Under Secretary Wallis' Speech to the American Society of Business Press Editors, Chicago, June 20, 1983

We request comments on Under Secretary Wallis' speech to the American Society of Business Press Editors.

Cony
 Charles Hill
 Executive Secretary

Attachment:

As stated.

UNCLASSIFIED

"Forging a Collective Approach to
East-West Economic Relations"

Remarks by W. Allen Wallis

Under Secretary of State for Economic Affairs

To the American Society of Business Press Editors

Chicago

June 20, 1983

My talk this morning is concerned with the effort that the United States and its Japanese, Canadian, and European partners are making to fashion a collective approach to their economic relations with the Soviet Union. As you know, this is a particularly difficult undertaking whose roots lie in the nature of the Soviet system, in the events of the last dozen or so years, and in various economic and geographic differences among the U.S. and its partners. Nevertheless, it is an undertaking that is succeeding, with concrete results to show for our common efforts and that will continue. I will describe some of these results in a few moments but first I would like to review briefly how we arrived at where we are now and why this process is such a difficult, but at the same time crucial, undertaking.

Standing before you, in mid-1983, it is difficult to recall how positive, and even euphoric, the atmosphere of East-West relations was in 1972, the heyday of detente. The Soviet Union and the United States had just signed a strategic arms limitation agreement, perceived at the time as an important milestone in limiting arms expenditures and as the premier indicator of positive Soviet-American political relations. President Nixon and Premier Brezhnev exchanged visits and signed numerous agreements. Seeing the positive state of the Soviet-American relationship, allies on both sides joined in to

create an overall East-West atmosphere of detente.

Naturally, East-West economic relations played a major part in the new atmosphere. The West liberalized its credit terms, and the Soviets took advantage of this liberalization to purchase increased amounts of Western grain as well as technology and equipment that they could not make on their own or that they could make only with difficulty. Truck assembly lines, entire chemical plants, and numerous pieces of equipment were purchased by the Soviets. Both sides perceived economic and political benefits from the increased level of trade.

The theory underlying detente was that a web of economic, scientific, cultural, and political relationships would so interlink Soviet and Western societies that their views on security and other core issues would tend to converge as well. It was believed that the tangible benefits flowing from economic and other interchanges would encourage Soviet foreign policy restraint.

In forging economic links with the Soviets, the U.S. was as eager as any nation to increase the level of its commerce. From 1972 to 1975, U.S. trade with the East bloc nearly tripled. The Pullman Corporation helped the Soviets to set up production lines at the Kama River Truck Plant, and the Bryant

Manufacturing Company sold the Soviets equipment that allowed it to make miniature precision ball bearings.

We all know the story of how the hopeful views of East-West relations spawned early in the decade turned sour later in the decade and in particular after 1979. Detente, with its web of relationships and incontestible economic benefits to Soviet society, was no barrier at all when Soviet decision-makers perceived opportunities to advance their strategic position through overseas adventurism or outright military aggression. Anyone who had illusions that fundamental Soviet views had changed during detente -- no one in the present Administration I think it safe to say -- was quickly disabused of those notions.

It's a familiar litany to describe how the Soviets, in the late 1970's, failed to live up to the unrealistic hopes of a decade earlier. Their sponsorship of Cuban adventures in Africa, their invasion of Afghanistan, and their crackdown in Poland were the most visible indicators that their fundamental values and policies had not been altered at all by a more lenient and cooperative attitude on the part of the West. Underlying these aggressive acts, of course, was the massive and unrelenting Soviet military buildup that went far beyond

any reasonable notion of what would be needed to defend the USSR. Even in the area of strategic arms, supposedly restrained by the SALT agreement, the Soviets continued their massive buildup.

As the Soviets demonstrated that their fundamental values and policies had not changed, Western governments began to reevaluate their economic, political, and security relationships with the East. Attitudes changed most quickly in the United States, as evidenced by our declining to ratify the flawed SALT II treaty and our strong effort to increase our defense forces in light of the Soviet threat. But our allies and partners also examined their relations with the East and, in the pluralistic way in which our nations reach decisions, concluded that the more lenient policies of a decade earlier were no longer appropriate. Decision-makers realized that, given the nature of Soviet behavior, they should no longer conduct their economic relations with the Soviets in a way that could give special subsidies to the Soviets and enhance Soviet military capabilities. The issue was further clarified by direct Soviet use of Western-supplied equipment to manufacture items for their military. The ship that had sailed so hopefully upon the seas of detente had begun to come about and chart a new course.

In the economic area, it was hardly a surprise that U.S. attitudes would change more rapidly than those of our European and Japanese partners. European and Japanese trade with the East had always been much more extensive than that of the U.S., even before the Russian revolution in 1917. There is a natural complementarity of trade between Eastern raw materials and Western manufactured goods. This factor, combined with geographic proximity, ensures that East-West trade would be of much greater economic importance to Europeans and Japanese than it would be to Americans.

As Western views changed, differences in the pace with which individual governments reevaluated their positions on East-West economic relations did create significant and visible tensions within the alliance. Such tensions, although they are undesirable, are a fact of life in relations between democratic states. It is the job of statesmen on both sides of an issue such as this to resolve the differences and reaffirm the fundamental community of values between their respective nations.

Last Summer, when Secretary Shultz entered office, was such a period of tension between the U.S. and its allies over

East-West economic issues. The Secretary, an able and experienced negotiator, was asked by the President to listen carefully to what our allies and friends were saying. As he listened, he recognized two fundamental facts: First, that there was enough convergence in the views that he heard for there to be a good chance to reach agreement on a collective approach to East-West economic relations; and second, that a collective approach would be much more effective than a unilateral approach.

On Secretary Shultz' recommendation, President Reagan last November lifted the restrictions imposed five months earlier on the sale of oil and gas equipment to the Soviet Union. In taking this action, the President emphasized that the U.S. and its European, Japanese, and Canadian partners had agreed to undertake a series of analyses of East-West economic relations designed to provide a framework for a collective approach to these relations. The analyses were undertaken immediately in a variety of locations.

In the Organization of Economic Cooperation and Development and the International Energy Agency, we examined East-West financial relations and credit terms; problems stemming from

Eastern nations' centralized control over trade; vulnerabilities created by undue energy dependence; and the importance of alternative sources of energy.

In NATO, we examined the overall security implications of East-West economic relations.

And in CoCom, the Coordinating Committee for Multilateral Export Controls, we studied ways of improving our surveillance and control over Western exports that have strategic or military implications.

While some work is continuing in each of these organizations, major segments of the analyses that were started last November have now been completed. The results achieved thus far provide a basic framework, agreed upon by the U.S. and its partners, for the conduct of East-West economic relations. The hopes of President Reagan and Secretary Shultz in undertaking the analyses have been borne out by the positive and constructive spirit in which they were conducted and by the results that have been achieved.

Let me review for you some of the major points on which we and our partners are agreed. First, we recognize that the Soviets use some forms of trade to enhance their military capabilities, and, as a result, that we must be vigilant to ensure that economic relations are consistent with our common security interests. While some forms of trade that are conducted on commercially-sound terms can benefit both sides, we must insist on a balance of advantages and avoid preferential treatment of the Soviets.

Second, in the energy area, the U.S. and its partners recognize that natural gas, with its relatively inflexible supply system, poses particular security problems. We have agreed that, in meeting future gas needs, we will take concrete steps to ensure that no one producer is in a position to exercise monopoly power over industrial countries. Further, we are also acting to encourage the production of natural gas from Norwegian and North American sources, and we are improving our individual national safety-net measures to deal with any potential interruptions of supply. The U.S. and its partners have also agreed to conduct regular reviews of each country's energy policy giving special attention to dependencies and alternative sources of supply. We believe that these concrete accomplishments will enhance Western energy security and make

it more difficult for the Soviets to use its abundant energy resources to extract political gains.

Third, we reached agreement that it would not be sensible to give the Soviets the same concessionary export credit interest rates given to newly-industrialized countries. Our agreed minimum interest rate for official lending to rich countries, including the Soviets, is now 12.4%, nearly two points above the current U.S. prime rate. Also in the area of credits, we are working to enhance our ability to monitor credit flows, so that our data on foreign indebtedness will be accurate and up-to-date.

Finally, in coordinating controls over the export of strategic technology, we are united with our allies in declaring that economic relations should not be permitted to contribute to Soviet military capabilities. At an April high-level meeting with our CoCom partners we explored ways in which the multilateral system of controls could be strengthened. While the proceedings of the meeting are confidential, the U.S. is extremely pleased with the results in identifying ways to improve coordination in export licensing and in the enforcement of control methods. We are confident

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that the activities discussed at the meeting will strengthen the enforcement operations of individual governments and thus reduce the flow of high technology to the East.

Now, as you are aware, none of the organizations within which these analyses were performed are supra-national bodies whose recommendations are strictly binding on member states. Indeed, such a rigid arrangement would be antithetical to the spirit of our pluralistic alliances and friendships with other democratic states. Instead, each of the states with which we have collaborated in these analyses has agreed with us concerning the validity, relevance, and importance of the findings, and they will then take the conclusions strongly into account when they formulate their own national policies. We are confident that the results that we have achieved through this collective approach to East-West economic issues will yield valuable benefits for Western security.

I mentioned earlier that some aspects of the studies are continuing. We are seeking to build on the results that have been achieved thus far and heighten awareness in the U.S. and other nations of the security dimension of East-West economic relations. Beyond seeking any specific set of conclusions, we are starting a process that will examine East-West economic relations as they develop over time and provide informed

analyses for the use of policy-makers. Specific efforts that are in process now include:

- o an effort in CoCom to strengthen that organization and examine whether members' security interests require controls on additional high technology items
- o additional analyses within NATO of the security implications of East-West economic relations
- o an analysis within OECD of the balance of advantages in East-West trade
- o the on-going study I mentioned earlier of national energy policies and Western energy security.

Before I conclude, let me restate our position on East-West economic relations and why we think this area is so important. First, let me say categorically that we are not trying to wage economic warfare against the Soviet Union or to cause the "collapse" of their economy. (Actually, the idea that we are seeking the "collapse" of the Soviet economy, whatever that ill-defined term means, has been erroneously posited as a goal of our policy by those opposed to that policy). We favor mutually beneficial economic relations where those relations

are conducted on commercial terms and where there is a balance of advantages. An example of mutually beneficial trade is the agricultural area, where a U.S. team is at this moment in Moscow negotiating a new Long Term AGreement (LTA) for grain sales to the Soviets.

We must keep in mind, however, that the Soviets vigorously seek to use trade with the West to enhance their strategic positioin and that they choose to devote 15% of thier Gross National Product to the military -- a level far beyond any reasonable need for defense. They have also not acted as a responsible and restrained member of the international order. As Secretary Shultz put it last week in his statement to the Senate Foreign Relations Committee, unconstructive Soviet behavior has needlessly drawn more and more international problems into the East-West rivalry and made the task of managing our relationship more difficult. In light of this, the U.S. and its partners have agreed to conduct their economic relations with the Soviets in a way that does not give preferential treatment to the Soviets or benefit their military position. It is crucial that we not permit our economic relations with the Soviets to be used in a waythat reduces Western security.

To summarize and conclude my remarks, let me again state

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that the process of turning away from the economics of detente has been a long and difficult one for the U.S. and its friends and allies. Differences of perception within the alliance and variations in the pace at which views have evolved have made the path even more treacherous. Yet, through patient and statesmanlike efforts, a collective approach to East-West economic relations has been forged. We are confident that this collective approach will enhance Western security and, in the long run, modestly reduce the amounts that we are required to spend each year to defend the values and liberties that we and our partners hold so dear.